

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MARKET TEST OF EXPERIMENTAL PRODUCT – EVERY DOOR DIRECT MAIL RETAIL (FORMERLY MARKETING MAIL MADE EASY)	Docket No. MT2011-3
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REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
IN RESPONSE TO ORDER NO. 998
(December 12, 2011)

In Order No. 998, the Postal Regulatory Commission (“Commission”) requested parties to submit comments on whether the Postal Service’s request for an exemption from the revenue limitation of \$10,000,000 in any year during the market test of Every Door Direct Mail Retail (EDDM-R) was consistent with 39 U.S.C. 3641(e)(2). Comments were due by December 5, 2011 and reply comments were due by December 12, 2011. Comments were filed by the Public Representative (“PR”) and Valpak Direct Marketing Systems, Inc. and Valpak Dealer’s Association, Inc. (“Valpak”).

The Commission is authorized to exempt the market test from the limit, if the total revenues received by the Postal Service from such product do not exceed \$50,000,000 in any year, as adjusted under 39 U.S.C. § 3641(g). In reaching such a conclusion, the Commission must determine that (A) the product is likely to benefit the public and meet an expected demand; (B) the product is likely to contribute to the financial stability of the Postal Service; and (C) the product is not likely to result in unfair or otherwise inappropriate competition. 39 U.S.C. § 3641(e)(2).

Both the PR and Valpak’s comments focus on whether the Postal Service has met its burden of establishing that its request for an exemption from the revenue

limitation meets the criterion set out in 39 U.S.C. §§ 3641(e)(2) and 3641(g). Ultimately, the PR does not oppose waiver of the exemption, because he concludes that EDDM-R is mostly used by small and medium businesses and meets an unfilled need, will not likely make a significant positive or negative impact on the Postal Service's net financial contribution, or cause inappropriate or unfair competition because its "footprint is so small." PR Comments at 4-7.

However, both the PR and Valpak question whether the Postal Service has provided sufficient cost data to show that EDDM-R will improve the financial stability of the Postal Service. They also challenge the Postal Service's contention that mail service providers (MSPs) have benefited from the product, or at the very least, have not been subject to inappropriate competition with mailers. PR Comments at 6-7; Valpak Comments at 3-5. They also both suggest that the Commission should order the Postal Service to clarify what is being measured when it reports "the total number of customers that used a different postal product or postal service for marketing in the 90 days prior to mailing EDDM-R." Valpak goes even farther to recommend that the Commission consider terminating the market test on the basis that EDDM-R is not a significantly different product, and that the data collection reports do not adequately demonstrate the effects of this market test.

The Commission has already determined that EDDM-R meets the standards and procedures created for considering experiments and market tests in 39 U.S.C. § 3641. Order No. 687 (March 1, 2011). Valpak has not presented a valid basis for reversing the Commission's conclusion. EDDM-R is the first direct mail product ever offered at retail. Besides, from the viewpoint of mail users, EDDM-R is significantly different from

any product offered by the Postal Service in the past two years, because of the absence of permits or mailing fees to use the mail at Standard Mail prices, the single price, and the convenience of entering the mailings at retail. Further, the data collection reports were designed to measure total volume and revenue, in addition to the number of registered participants, and the items to be reported were not only approved by, but supplemented by, the Commission. *Id.* at 12-13. The Postal Service currently is not measuring previous use of shared mailings. The Postal Service measures “the total number of customers that used a different postal product or postal service for marketing in the 90 days prior to mailing EDDM-R” by whether the mailer had a permit and used that permit 90 days prior to their EDDM-R mailing. The Customer Registration ID (CRID) system is used to identify the mailer. Moreover, no evidence has been presented showing that EDDM-R is adversely affecting existing mailers of shared mail.

Thus, the Postal Service will focus its reply comments on providing additional support for the Commission exempting EDDM-R from the revenue limitation, under the criteria set out in 39 U.S.C. § 3641(e)(2). To date, EDDM-R has generated new revenue for the Postal Service and fulfilled an unmet need in the mailing community, particularly for new small and medium business customers. In this regard, the Postal Service emphasizes the critical importance of experimentation and practical market research in the statutory scheme created by the Postal Accountability and Enhancement Act (PAEA). Especially in the current, challenging economic conditions, and in light of the evolving trends involving alternative means of communication that have undermined the Postal Service’s revenue base, it is extremely important that the

Postal Service be permitted to test new ideas and approaches that will promote and invigorate mail usage.

EDDM-R has Benefited the Public and Met an Unexpected Demand

The PR raises doubts as to whether there is a widespread interest in EDDM-R. PR Comments at 4. Beyond what has already been noted in the request for an exemption, the data clearly demonstrate the widespread interest in EDDM-R, given the short duration of the market test so far. In addition to the 1,665 customers that used EDDM-R during Quarter 3, an additional 6,685 customers used EDDM-R between July 1, 2011 and September 30, 2011, as stated in the Every Door Direct Mail Retail FY11, Q4 Data Collection Report. So, a total of 8,350 customers have used EDDM-R since the market test began. Since some of these customers may be printers and MSPs handling mail for multiple customers, the actual number of customers may be higher than reported. Further, the average size of the mailings has been 2,028 pieces, indicating that this product is serving the needs of small businesses and helping them grow. The data also shows that businesses have mailed an average of 2.5 times since April, which demonstrates that EDDM-R is proving to be a useful advertising tool for their businesses. The Postal Service anticipates EDDM will be the media to fuel economic growth for small businesses.

EDDM-R has Contributed to the Financial Stability of the Postal Service

EDDM-R growth rates have accelerated since the launch of the product, so a growth projection based on the average of growth rates between March 31, 2011 and September 30, 2011, and growth rates between October 1 and November 11, 2011, as calculated by the PR, probably underestimate the revenue expected in 2012. Using all

data from April 1, current growth trends would result in an annualized rate of \$26 million for 2012, which make a waiver from the exemption necessary if the market test is to continue. As of December 5, 2011, FY 2012 revenue already has exceeded \$5 million.

Moreover, calculating contribution based on the cost coverage for Standard Mail Saturation flats is appropriate for EDDM Retail. Mail using the simplified address format has existed for many years and is already included in the costing for Saturation mail. In fact, the costs for EDDM-R can be assumed to be lower than the average for Saturation mail, since handling and transportation are limited for EDDM-R. EDDM-R further lowers costs by reducing the time required for each acceptance transaction, through volume size limits, bundling requirements, and a simplified postage statement. Revenue per piece also may be higher than for shared mail, because EDDM-R pieces are not included in a package that is paid for as one mailpiece. EDDM-R pieces are solo mail pieces paying the saturation mail rate for each individual mail piece. A shared mail package may contain 20 to 40 individual advertisements paying one saturation rate for the entire package.

EDDM-R Will Not Result in Unfair or Inappropriate Competition

There are no indications that EDDM-R will result in unfair or otherwise inappropriate competition in favor of the Postal Service. Contrary to Valpak's assertions, the efforts that the Postal Service has undertaken to advertise and market this product are no different than it would perform for any other postal product. The EDDM-R site on www.usps.com fulfills one of the key purposes of USPS.com, which is to provide information to customers on postal products. USPS.com has webpages dedicated to many individual products, including other Standard Mail products. See

<https://www.usps.com/business/send-mail-for-business.htm>. The Postal Service also does not have a partnership with The UPS Stores related to EDDM-R. The UPS Stores have elected to be a provider of EDDM-R Services just as any mail service provider could be.

Further, promotional efforts such as “Grow Your Business Days,” which regularly promote a variety of postal products, are conducted by the local Postmaster for a local market. Specifically, “Grow Your Business Days” seminars for EDDM-R are based around a DVD presented by the Postmaster that first discusses at length the benefits of Standard Mail as part of a total media campaign for small businesses, and then presents EDDM-R as one option for using Standard Mail. All USPS external and internal materials, such as collateral presentations, and articles, repeatedly stress the 5,000 piece limit. We have not waived the limit, and there is no evidence that the system is being “gamed.”

Additionally, as reflected in the data collection reports, mailers using the EDDM-R product are usually new to the Postal Service and new to direct mail. Research data indicate that 77 percent of small businesses do not use a direct mail product, and postal efforts have been directed at that group. Many of these businesses have been non-mailers who perceived mail preparation requirements for products other than EDDM-R as too complex and too expensive for the relatively small trading areas they wanted to target. By providing the opportunity to mail without permits or related fees, and simplifying mail entry, the EDDM-R product has enabled non-mailer businesses to communicate by mail at low cost within their target marketing areas, while reducing two of the current major barriers to mail entry (complexity and cost), and

generating new revenue from an untapped market without taking business away from competitors.

Conversely, there are indications that EDDM-R is having a positive impact on printers and MSPs nationwide. As a result of two direct mail campaigns directed at printers and MSPs, the Postal Service received over 8,000 requests for the EDDM Printer kit, which shows how printers and MSPs can produce and handle EDDM-R mail for their customers. In addition to participation by over 300 UPS Stores, other national chains and franchises are preparing to offer EDDM-R to their customers.

Conclusion

As discussed above, the Postal Service has demonstrated that EDDM-R benefits the public, has met an expected demand, and has contributed positively to the financial stability of the Postal Service. However, the Postal Service anticipates that annual revenues will exceed the \$10,000,000 limitation this fiscal year and during the remainder of the market test, so it requests that the Commission exempt this market test from the \$10,000,000 annual revenue limitation, under 39 U.S.C. § 3641(e)(2).

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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